

Regional Economic Growth and the Economic Base Concept

Q: How do regional economies grow?

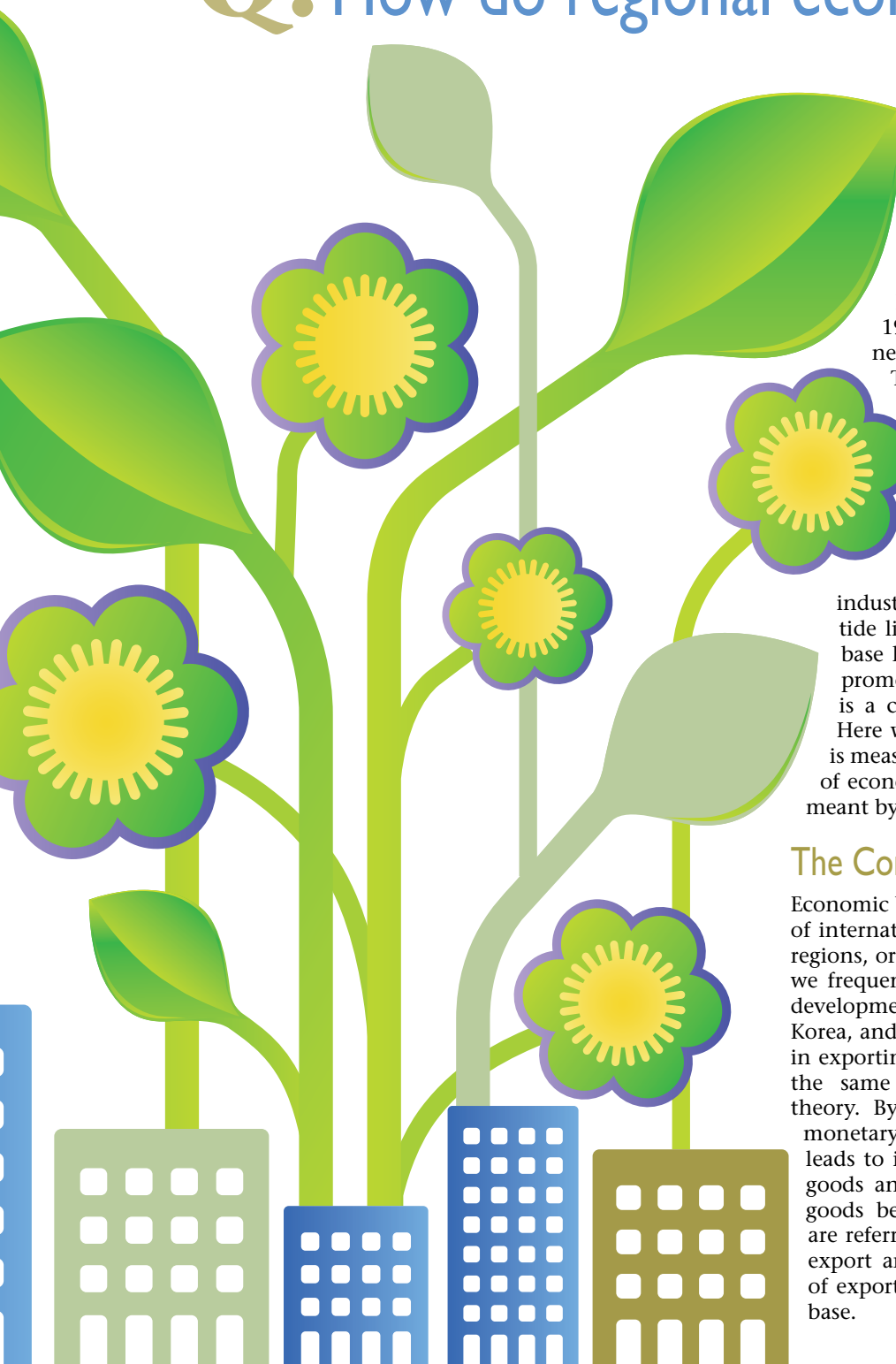
A:

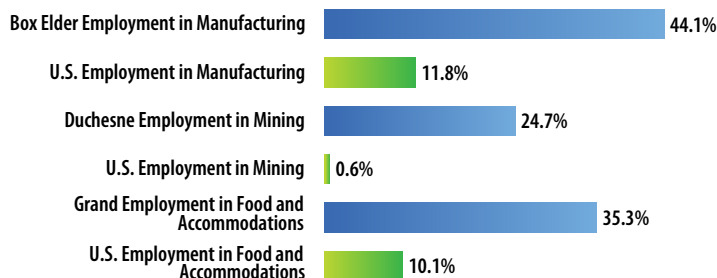
One theory suggests that it all depends on the growth of the economic base. Economic base theory originated in the 1920s as a method by which city planners could guide economic development. The theory is still popular today, even though it is more often applied to regions and counties.

Economic development analysts are interested in knowing the economic base because the economic well-being of a region can depend largely on the success of the basic industries. Just like the notion, “a rising tide lifts all boats,” growth of the economic base lifts all of the non-basic industries. So, promoting the success of the economic base is a central concern of economic planners. Here we will look at how the economic base is measured and how it is used to classify types of economies, but first we must define what is meant by “economic base.”

The Concept of an Economic Base

Economic base theory is essentially an application of international trade theory to individual states, regions, or counties. In the business news media, we frequently see that the remarkable economic development in countries such as Japan, South Korea, and Singapore is attributed to their success in exporting goods and services. This is precisely the same concept underlying economic base theory. By exporting goods out of the region, monetary payments flow into the region, which leads to increased demand for locally produced goods and services. The industries that export goods beyond the boundaries of their region are referred to as basic, while those that do not export are referred to as non-basic. The group of exporting industries makes up the economic base.





Comparison of Selected County and U.S. Employment Percentages by Industry 2008

Source: Bureau of Labor Statistics

Box Elder County		Duchesne County		Grand County	
Percentage of Box Elder Employment in Manufacturing	44.1%	Percentage of Duchesne Employment in Mining	24.7%	Percentage of Grand Employment in Food and Accommodations	35.3%
Percentage of U.S. Employment in Manufacturing	11.8%	Percentage of U.S. Employment in Mining	0.6%	Percentage of U.S. Employment in Food and Accommodations	10.1%
Location Quotient	3.74	Location Quotient	41.17	Location Quotient	3.50

Source: Bureau of Labor Statistics

Types of Economic Bases


In theory, just about any type of economic activity could be classified as basic. However, a few activities that are most often found to be basic to regions are manufacturing, natural resource extraction, leisure and hospitality, and retirement-oriented industries. Box Elder County is an example of a region whose base is manufacturing. The natural resource extraction industries are basic to Carbon, Duchesne, Emery, and Uintah counties. Grand and Kane counties are examples of regions with the leisure and hospitality industries as their economic bases. Even though there is not exactly a single industry we would call "retirement services," Washington County is a popular destination for retirees, and their Social Security and retirement income represents a monetary inflow for the county.

Location Quotients and the Economic Base

Identifying the economic base for a region is not always straightforward. Figuring out which firms export their goods and which do not requires data

that is not readily available for most regions. One solution, however, is to use location quotients.

A location quotient provides a measure of how specialized a county is in the production of a particular good or service. The higher the degree of specialization, the more likely the industry is an exporter. An example will make the concept clear. Box Elder County devotes 44.1 percent of its total employment to manufacturing, while only 11.8 percent of all workers in the U.S. are employed in manufacturing (see graph).

This indicates that Box Elder County is relatively specialized in the production of manufactured goods. The location quotient gives an exact measure of this specialization and it is found by simply dividing Box Elder County's percentage of manufacturing employment by the United States' percentage of manufacturing. The result is a location quotient of 3.74, which simply means that the percentage of manufacturing employment in Box Elder County is 3.74 times the percentage of manufacturing employment in the U.S. (see table). 

Are you wondering what the economic base is for your county? The Bureau of Labor Statistics has a location quotient calculator on their web site along with a tutorial for how to use it. To get there, just use the following link: <http://www.bls.gov/data/#calculators>